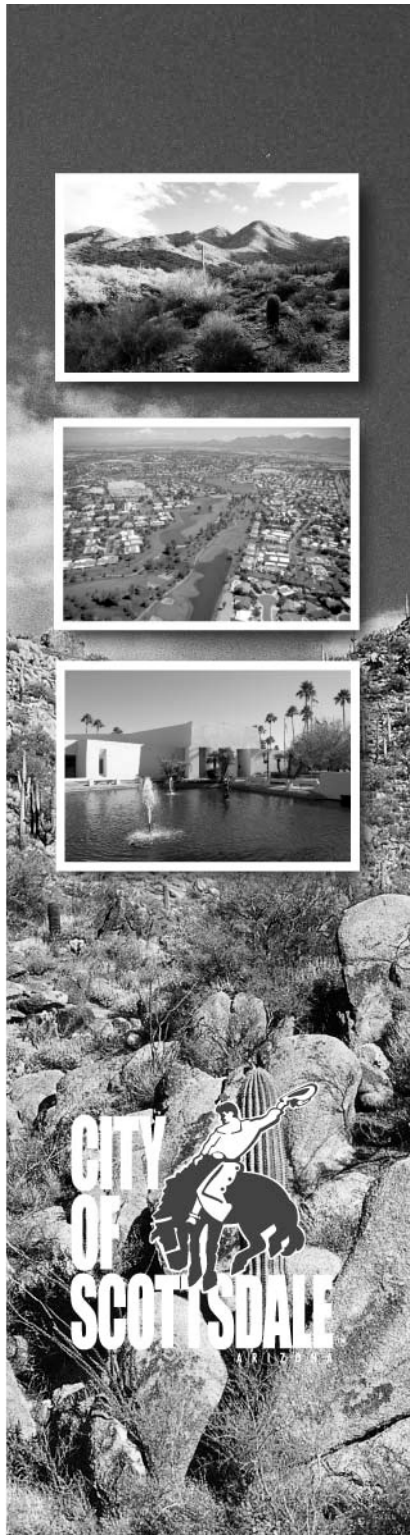


# AUDIT PROCESS

Rev. July 2010



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## **GENERAL INFORMATION**

This summary has been prepared to assist you in understanding the role of the City Auditor's Office and its process for conducting audits. This information neither expands nor restricts the Audit Committee's nor the City Auditor's powers and duties, which are established in City Charter and Code.

### **What is the purpose of an audit?**

The City Auditor's office was established to provide an independent review of the City's accountability for public resources. An audit provides independent, objective evaluation of the financial condition, accuracy of recordkeeping, compliance with applicable laws, policies, guidelines and procedures, and efficiency and effectiveness of operations in the City. All audits are conducted in accordance with generally accepted government auditing standards.

### **Who decides what will be audited?**

Annually, the City Auditor presents an Audit Plan for the Audit Committee's review and recommendation, and then for the City Council's review and approval.

The City Auditor has the responsibility of conducting expanded scope audits of all City departments, offices, boards, activities and agencies. With limited staff available to conduct audits, the annual Audit Plan is developed with input from the audit team, City management and the City Council. The draft plan is prepared by considering new programs, funding or concerns arising during the year, requests from management or Council members, issues identified by previous audits or by other city auditors, past coverage of audit work, and work completed by the City's external audit firm. In addition, potential audit work is prioritized based on availability of staff to conduct the audits.

### **What standards apply to the work being done?**

The City Auditor's Office conducts audits in accordance with the generally accepted *Government Auditing Standards* issued by the U.S. Government Accountability Office. (A link to these standards, which are followed by most government auditors and public accounting firms conducting audits of government programs, is available on the City Auditor's website.) To comply with the standards, internal controls and risk must be assessed, audit work must be properly planned, and

sufficient and appropriate evidence must be obtained to address the audit objectives. In addition, the City Auditor's Office must subject itself to an external Quality Control Review (QCR) every three (3) years to ensure compliance with these standards. The most recent QCR results are available on the City Auditor's website.

### **What is the Audit Process?**

Before an audit report is written, the audit process involves several phases, for gaining familiarity with your program, planning the work to be performed, and conducting tests and observations.

#### *Preliminary Survey*

During the Preliminary Survey phase, the auditor gains familiarity with the program through reviewing documentation, interviewing staff, and observing processes and facilities. After some initial background review, the City Auditor sends a Job Start letter to management (copied to City Council) to identify the planned objectives for the audit, the assigned auditors, and the anticipated timeline and scheduled presentation to the Audit Committee. It's very important in this phase to share with the auditors your program's goals and objectives, standards and measures, results, recent changes and other relevant information.

As part of the preliminary phase, the auditor also identifies risks that are inherent to the program and, through inquiries and observations, the internal controls that are in place to address those risks.

Internal control, which is sometimes referred to as management control, is an important concept in auditing. Internal control is defined in *Government Auditing Standards* as "the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives." In short, internal controls are the measures used by management to ensure the desired outcomes. It's very important during this phase of the audit to communicate how your program is managed and controlled.

#### *Early Audit Termination*

If an audit is terminated without completion and a report is not going to be issued, the City Auditor must notify management, the Audit Committee and the City Council of the situation. Generally, an audit may not be finished if the City Auditor concludes that internal controls are so inadequate and documentation is so limited that there is little chance sufficient evidence could be gathered to address the audit objectives. Early termination of an audit is seldom necessary.

#### *Fieldwork*

During the next audit phase, tests are conducted based on the

identified risks and controls related to the audit objectives. Planned tests may be modified or deleted as additional information becomes known. As tests are completed, the auditors will ask you questions to validate the results and identify any supplemental information that you may have. It's very important to understand that audit conclusions are being formed during this phase of the audit. This is the time to ask questions about test results and provide any additional relevant information.

### *Reporting*

When Fieldwork is completed, a written audit report is prepared and sent to management of the audited program and other involved parties, such as Finance & Accounting. Except for unusual circumstances, auditor observations and results will be shared with you throughout the audit. This phase formalizes the audit results into a written report for the Audit Committee and City Council. The report structure is guided by *Government Auditing Standards*.

### **What records or access am I required to provide?**

City Code specifically states that all officers and employees of the City shall provide the City Auditor free and open access to requested information and records, property, equipment and facilities in their custody. When the voter-approved City Auditor position was instituted in 1989, the original enacting ordinance contained this provision. Therefore, during an audit, City staff must be available for interviews (given constraints of work hours and workload demands); records must be provided in original form without alteration or redaction (unless legally required); and property must be available for inspection.

To emphasize one important point—please do not *create* documentation to respond to a auditor's inquiry. If an auditor has asked for something that does not exist, please explain that. There may be alternate acceptable documents or other methods of meeting the audit objective.

All original documents provided during the audit will be returned at its conclusion. Confidential information provided during the course of the audit will be kept confidential and if copies are necessary for the audit work papers, they will be flagged as confidential. At the conclusion of the audit, the only document copies retained are those needed to support audit conclusions; other document copies obtained during the course of the audit will be deleted or shredded.

### **How long will an audit take?**

On average, most audits are currently completed in 2 to 3 months.

However, an audit's scope and objectives impact the amount of time required. In addition, City staff's availability and responsiveness as well as reliability of the documents provided can speed or delay an audit's completion. Audits on the annual Audit Plan are scheduled for specific Audit Committee meetings. If deadlines cannot be met, the City Auditor will provide an update to the Audit Committee with reasons for the delay and a revised completion date.

#### **Who coordinates an audit?**

The City Auditor will designate the Auditor-in-Charge, who is responsible for coordination of the audit team. Management responsible for the program being audited will be asked to designate an Audit Liaison to work with the Auditor-in-Charge in coordinating activities.

#### **What are the Audit Liaison's responsibilities?**

The Audit Liaison's most important functions are coordination and communication. During all phases of the audit, the liaison will be asked to help the auditors obtain information, schedule meetings, gather data, or obtain responses. The Liaison's assistance can be invaluable in facilitating the auditor locating the right person and the right information, informing the auditor of upcoming schedule conflicts, and minimizing the necessary disruption of the program's regular workload.

The Liaison will also be the primary communication contact during the audit. The Liaison will be kept up-to-date on the audit status and is responsible for keeping management updated. However, management can request an auditor update at any time.

#### **Does management have an opportunity to respond to the audit?**

*Government Auditing Standards* requires the auditor to request a management response and City Code requires management to provide one. As required by City Code, management must provide a written response, explaining either agreement or disagreement with the results and recommendations, as well as an action plan with a time table. The action plan is to state clearly and concisely how management plans to implement solutions to identified problems. Management's response and action plan are incorporated into the final report.

Fifteen (15) calendar days are allowed to prepare a written response. During this period, auditors will meet with you to discuss the final draft report and review any issues for factual accuracy, tone, and presentation (this is called the exit conference). Depending on the situation, the City Auditor may grant an extension of up to fifteen calendar days for management to prepare the written response. If

requested, the Audit Committee may grant an extension of thirty calendar days. If requested, the City Council may by resolution grant an extension for the management response to be prepared.

#### **How are audit results communicated to the City Council?**

Once the management response has been incorporated into the draft, the City Auditor's Office produces the final audit report. Approximately ten days before the scheduled Audit Committee meeting, the electronic agenda packet (including the final audit report) is sent to the Audit Committee, other members of the City Council, the City Manager, and management representatives. This e-packet is also posted to the Audit Committee's page of the City's website.

At the Audit Committee meeting, the audit team members are available to present the audit's scope, methodology and results and answer Audit Committee questions about the work performed. Management representatives are invited to attend and should be present to respond to any Audit Committee questions about the management response and action plan. The meeting provides an opportunity for members of the Audit Committee to obtain a clear understanding of the audit and management's response.

After the Audit Committee meeting, the final report is also added to the audit reports linked on the City Auditor's page of the City's Web site. In addition, at the Audit Committee's direction, the audit report may be presented at a City Council meeting.

#### **What if I need help or have further questions?**

The City Auditor and staff are available for any questions you may have regarding the audit process, the Audit Plan or other aspect of the Office's duties.

Please contact us at:

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4021 N. 75 <sup>th</sup> St., Suite 105	Fax: (480) 312-2634
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# **SCOTTSDALE CITY CHARTER**

## **Sec. 2-20. Internal auditor.**

The city council shall have the authority to appoint an internal auditor to examine and verify such city affairs as the council may direct. The auditor shall report directly to the council.

# **SCOTTSDALE REVISED CODE**

## **Sec. 2-117. Establishment; qualifications.**

- (a) The office of city auditor of the city is hereby established. The city auditor shall be designated through appointment by a majority vote of the city council.
- (b) The city auditor shall be a person able to manage a professional audit staff, analyze financial records, evaluate operations for economy, efficiency and program results.
- (c) The city auditor shall not be actively involved in partisan political activities or the political affairs of the city.
- (d) The city auditor should be a certified internal auditor (CIA), certified public accountant (CPA), or a certified management accountant (CMA). If he or she is not so certified, then at least one (1) deputy should be so certified.
- (e) The city auditor shall serve at the pleasure of the city council, but can only be removed by a majority vote of the city council.
- (f) The city auditor and the city auditor's office shall adhere to generally accepted government auditing standards (GAGAS) in conducting its work and will be considered independent as defined by those standards.
- (g) The city auditor shall have such assistants and employees as are necessary to perform duties required by the city council.

## **Sec. 2-118. Audit committee.**

An audit committee is hereby established to consult with the city auditor regarding technical issues, to work to assure maximum coordination between the work of the city auditor and the needs of the city manager, the other charter officers and to perform other duties as required or directed by the city council. The audit committee shall consist of three members of the city council, who shall be appointed by the mayor, with

the approval of the city council, as provided in section 2-23 of this Code.

**Sec. 2-119. Scope of audits.**

- (a) The city auditor shall have responsibility to conduct expanded scope audits of all departments, offices, boards, activities and agencies of the city to independently determine whether:
  - (1) Activities and programs being implemented have been authorized by the city council, state law or applicable federal law or regulations;
  - (2) Activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by the city council, state law or applicable federal law or regulations;
  - (3) Activities or programs efficiently and effectively serve the purpose intended by the city council, state law or applicable federal law or regulations;
  - (4) Activities and programs are being conducted and funds expended in compliance with applicable laws;
  - (5) Revenues are being properly collected, deposited and accounted for;
  - (6) Resources, including funds, property and personnel, are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;
  - (7) Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities;
  - (8) During the course of audit work, there are indications of fraud, abuse or illegal acts; and
  - (9) There are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management.
- (b) Audits shall be conducted in accordance with generally accepted government auditing standards applicable to financial and performance audits.
- (c) The city auditor shall not conduct or supervise an audit of an activity for which he/she was responsible or within which he/she was

employed during the preceding two (2) years.

**Sec. 2-120. Annual audit plan.**

- (a) At least annually, the city auditor shall submit an audit plan to the audit committee for review and recommendation, and the city council for review and approval. The plan shall include the departments, offices, boards, activities and agencies scheduled for audit during the year. This plan may be amended during the year after review by the audit committee. Additionally, the city auditor may spontaneously initiate and conduct any other audit deemed necessary or as directed by the city council.
- (b) In the selection of audit areas, the determination of audit scope and the timing of audit work, the city auditor should consult with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be properly coordinated. The city auditor should consult with the city manager and other charter officers in a similar fashion to enhance audit coverage and improve audit coordination.

**Sec. 2-121. Special audits.**

- (a) The city manager may request the city auditor to perform special audits that are not included in the annual audit plan. After consultation with the audit committee, a special audit requested by the city manager may become an amendment to the annual audit plan.
- (b) The city auditor shall submit the report of the special audit to the city manager and the audit committee.

**Sec. 2-122. Funding.**

Sufficient funds shall be provided to carry out the responsibilities specified herein. The city auditor's salary shall be set by the city council and reviewed annually. The audit committee shall make recommendations to the city council concerning the city auditor's annual review.

**Sec. 2-123. Records.**

The city auditor shall retain for at least three (3) years a complete file of each audit report and each report of other examinations, investigations, surveys and reviews made under city council authority. The file should include audit work papers and other supportive material directly pertaining to the audit report.

**Sec. 2-124. Access to records and property.**

All officers and employees of the city shall provide the city auditor with free and open access to and shall furnish the city auditor with requested information and records within their custody regarding powers, duties, activities, organization, property, financial transactions and methods of business required to conduct an audit or otherwise perform audit duties. In addition, they shall provide free and open access for the city auditor to inspect all property, equipment and facilities within their custody.

**Sec. 2-125. Agency response.**

- (a) A final draft of the audit report will be forwarded to the audited agency and the affected charter officer for review and comment regarding factual content before it is released. The agency must respond in writing specifying agreement with audit findings and recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to identified problems and a time table to complete such activities. The city auditor will include the full text of the agency's response in the report.
- (b) The agency response must be filed with the office of the city auditor within fifteen (15) calendar days from the date of the agency's receipt of the final draft. Upon the request of the agency, the city auditor may grant a one-time extension of the time to respond up to, but not exceeding, fifteen (15) calendar days. The audit committee, at the request of the agency, may grant an extension of up to, but not exceeding, thirty (30) calendar days, either in addition to an extension granted by the city auditor, or following the denial of an extension by the city auditor. The city council may by resolution also grant extensions of time for agency response.
- (c) *Agency*, as used in this section, means the department, office, board or agency that is the subject of the audit, or that is responsible for the activity audited, as applicable.

**Sec. 2-126. Audit reports to city council.**

- (a) Each audit will result in a written report.
- (b) The city auditor shall submit each audit report to the city council and shall transmit a copy of each report to the city manager. A copy shall be filed with the city clerk and the city public library.
- (c) If appropriate, the audit report shall contain the professional opinion of the city auditor or the contract auditor concerning the financial statements issued by the department, board or agency; or if the

audit is an expanded scope audit, the report will contain the professional conclusions of the audit regarding the management activities audited.

- (d) The city auditor shall include in the audit reports:
  - (1) A precise statement of the scope encompassed by the audit;
  - (2) A statement that the audit was performed in accordance with generally accepted government auditing standards;
  - (3) A statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the findings associated with that examination is included;
  - (4) A statement of the significant audit findings, including a statement of the underlying cause, evaluative criteria used and the current and prospective significance of the findings;
  - (5) A statement that internal control systems were examined where applicable and a report of any material weaknesses found in the internal control systems;
  - (6) Statements of response submitted by the audited department, board or agency relevant to the audit findings;
  - (7) A concise statement of the corrective actions previously taken or contemplated as a result of the audit findings and a time table for their accomplishment;
  - (8) Recommendations for additional necessary or desirable action.
- (e) Each audit report shall be retained and disposed of in accordance with the records retention and disposition schedule established pursuant to Arizona Revised Statutes section 41-1346.

**Sec. 2-127. Report of irregularities.**

If the city auditor detects apparent violations of law or apparent instances of misfeasance or nonfeasance by an officer or employee or information that indicates derelictions may be reasonably anticipated, the city auditor shall report the irregularities in writing to the city council or, in the case of a special audit, to the city manager and to the city council. If the irregularity is criminal in nature, the city auditor shall immediately notify the appropriate chief prosecuting authority in addition to those previously cited.

**Sec. 2-128. Contract auditors, consultants and experts.**

Upon approval of the city council during the budgetary process, the city auditor may obtain the services of certified or registered public

accountants, qualified management consultants, or other similar experts necessary to assist the city auditor in the performance of his/her duties.

An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the city or its officers. The city auditor will coordinate his/her efforts with accounting or other organizations employed under contract by the city and he/she will assist with audit related activities. Contracting for these audits will be awarded in accordance with established city contracting procedures.

**Sec. 2-129. Peer review.**

- (a) The internal audit activities of the city auditor's office shall be subject to peer review in accordance with the schedule set by the U.S. Government Accountability Office and outlined in generally accepted government auditing standards. The peer review shall be completed by a professional, nonpartisan objective group utilizing guidelines endorsed by the National Intergovernmental Audit Forum, the State Auditor's Association, National Association of Local Government Auditors, or the U.S. Government Accountability Office. A copy of the written report of this independent review shall be furnished to each member of the city council.
- (b) The peer review will use generally accepted government auditing standards to evaluate the quality of audit effort and reporting. Specific peer review areas shall include staff qualifications, adequacy of planning and supervision, sufficiency of workpaper preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, and presentation of internal audit reports. The city shall reimburse travel and living expenses for the peer review team from funds budgeted in the city auditor's budget.

**Sec. 2-130. Audit Follow-up.**

The city auditor shall follow-up on audit recommendations and the related management action plans to determine if corrective action has been taken. The city auditor will request periodic status reports from audited agencies regarding actions taken to address audit recommendations and may perform review activities as deemed necessary to report to the audit committee on the status of corrective actions.





## **MISSION STATEMENT**

*The City Auditor's Office provides independent research, analysis, consultation, and educational services to promote operational efficiency, effectiveness, accountability, and integrity in response to City needs.*

This material is available in alternate format upon request. For TTY users the AZ Relay Operator, 1 (800) 367-8939, can contact us at (480) 312-7756.

For additional information, visit the City Auditor's web page at:  
**[http://www.ScottsdaleAZ.gov/departments/City\\_Auditor.asp](http://www.ScottsdaleAZ.gov/departments/City_Auditor.asp)**